

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ISO-00 AGR-01 ARA-10 CIAE-00 COME-00

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FM AMEMBASSY BUJUMBURA

TO SECSTATE WASHDC 6267

INFO AMEMBASSY DAR ES SALAAM

AMEMBASSY KIGALI

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E.O. 11652: N/A

TAGS: EAGR, ETRD, BY, RW

SUBJECT: COFFEE PURCHASE PRICES RAISED FROM 90 TO 112 FRANCS

PER KILO

REF: BUJUMBURA 0623

1. NINE DAYS AFTER THE PRICE FOR PARCHMENT COFFEE OF 15 PERCENT HUMIDITY WAS SET AT 90 FRANCS A KILO (ONE DOLLAR), THE BURUNDI GOVERNMENT HAS REVISED THE PRICE TO 112 FRANCS A KILO (1.24 DOLLARS), DELIVERED TO BUJUMBURA. IN THE PRIMARY COFFEE-GROWING PROVINCES OF NGOZI, GITEGA, AND MUYINGA WHICH LIE NEAR THE BORDER WITH RWANDA, THE AVERAGE PRICE OF COFFEE HAS BEEN SET AT 110 FRANCS A KILO (1.22 DOLLARS). THE GRB UNDOUBTEDLY REVISED PRICES UPWARD TO STANCH WHAT HAD ALREADY BECOME A MASSIVE FLOW OF COFFEE ALREADY ESTIMATED AT 5,000 TONS) SMUGGLED INTO RWANDA, WHICH HAS FIXED A COFFEE PRICE OF 120 FRANCS A KILO, OVER 30 PERCENT MORE THAN THAT FIRST PEGGED HERE. (BRIBED BURUNDI CUSTOMS OFFICIALS HAVE BEEN SEEN LETTING WHOLE TRUCKLOADS OF COFFEE CROSS AT REGULAR BORDER POINTS.)

2. HAD IT NOT BEEN FOR CONTINUING LEGITIMATE FEARS AMONG BUJUMBURA

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ECONOMISTS OF DEMAND-INDUCED INFLATION GENERATED BY THE MORE THAN 72 PERCENT INCREASE IN GROWER PRICES OVER THAT OF LAST YEAR, THE AUTHORITIES HERE MIGHT HAVE FROM THE OUTSET SET THE SPREAD BETWEEN PRICES PAID TO GROWERS IN RWANDA AND BURUNDI AT THE NEW NARROW LEVEL. IN THE PULLING AND TUGGING THAT FOLLOWED, THE SOUND THEORETICAL CONCERNS OF THE FISCAL EXPERTS HAD TO CEDE PLACE TO THE PRACTICAL WISDOM OF THOSE WHO KNOW THAT, ARMY

MANEUVERS OR NOT ALONG THE FRONTIER (REFTEL), NOTHING COULD HAVE STOPPED MASSIVE SMUGGLING TO RWANDA IN SEARCH OF THE HIGHER PRICE.

3. NOW, THE BURUNDI GOVERNMENT APPARENTLY BELIEVES THAT THE REMAINING 10 FRANCS A KILO DIFFERENTIAL IN FAVOR OF RWANDA IN THE BORDER GROWING AREAS WILL BE MANAGEABLE SINCE GROWERS HERE MAY NOT WISH TO RISK FINES AND EXPROPRIATION OF COFFEE INTENDED TO BE SMUGGLED ACROSS THE BORDER, IN ADDITION TO PAYING ADDED TRANSPORT COSTS AND BRIBES TO CUSTOMS OFFICIALS, ALL FOR THE SAKE OF A FEW FRANCS. ACCORDINGLY, THIS UPWARD REVISION SHOULD BE THE LAST ONE THIS YEAR, AND ASSUMING THAT THE PRICE PAID TO BURUNDI GROWERS FORECLOSES SMUGGLING, GROWERS SHOULD DERIVE IN THE AGGREGATE ARECORD SUM OF BETWEEN 20 AND 25 MILLION DOLLARS FROM THIS YEAR'S CROP. THE OUTCOME SHOULD ALSO SUBSTANTIALLY REDUCE ONE OF THE CURRENT CAUSES OF FRICTION BETWEEN BURUNDI AND RWANDA. WE HEAR THAT RWANDA WILL STILL HAVE TO ATTRACT LARGE AMOUNTS OF SMUGGLED COFFEE (PRESUMABLY MAINLY FROM UGANDA) BECAUSE IT HAS ALREADY CONCLUDED (ACCORDING TO EUROPEAN COFFEE DEALERS IN BURUNDI) EXPORT CONTRACTS FOR TWICE THE AMOUNT OF ITS NORMAL HARVEST.
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